

BIG

savings in capital gains tax!

Homeowners, first-time buyers, investors, and real estate professionals alike are benefiting from recent tax legislation. Here are some of the things that might benefit you:



A tax
dollar
saved is
a dollar
earned

Tax Rate Reductions

- The top rate for capital gains dropped from 28% to 20%. For those in the lowest bracket, it fell from 15% to 10%.
- Holding period for qualifying assets increased from one year to 18 months.

Depreciation Recapture

The rate was reduced from 28% to 25%.

Example: If an investor were to buy rental property for \$100,000, take depreciation of \$20,000, and sell for \$110,000, only the \$10,000 exceeding the purchase price would qualify for the new, lower 20% capital gains tax rate. The \$20,000 of depreciation would be taxed at the 25% depreciation recapture rate.

First-time Home Buyers

First-time home buyers (or anyone who hasn't owned a home for three years) will be able to draw as much as \$10,000 from their IRA's without penalty.

- Parents may pass down as much as \$10,000 penalty free to their child, to help out with a downpayment.

Check with your tax advisor

to see how these changes affect your tax situation.

\$500,000 Exclusion on Sale of Principal Residence

Couples are eligible for a \$500,000 capital gains exclusion on the sale of a principal residence once every two years, while single filers can exclude up to \$250,000 in profit.

- Previously, this exclusion was limited to \$125,000 and could be used only once over the age of 55.
- Gains in excess of \$500,000 for couples and \$250,000 for singles is taxable at the capital gains rate.
- Exclusion can be taken more than once as long as the home has been used as a principal residence for two of the preceding five years.

*Exclusion does not apply to vacation
or second homes.*

With a 1031 tax-free exchange, you can defer your entire tax liability!

You don't have to pay capital gains tax when you sell property at a profit as long as the net sales price is immediately reinvested under strict guidelines. The IRS calls this a "1031 Tax Free Exchange." You can defer the tax by participating in a like-kind exchange under the following guidelines:

- Trade business or investment property for business or investment property. This property must be held either for productive use or investment purposes.
- Exchange "like" property; ie. you must trade real estate for real estate. For example, the trade of an apartment building for a store, or city for farm property, or unimproved property for improved property, are all considered "like-kind exchanges."
- Identify in writing the property to be received within 45 days after the transfer of the property to be given up in exchange.
- Hold title to the property to be received in exactly the same names as the property to be given up.
- Complete the transaction of the property to be received on or before, either the 180th day after the day on which the property given up is transferred; or, the due date, including extensions, for the tax return for the tax year in which the transfer of the property given up occurs; whichever comes first.
- Escrow the proceeds from the sale of the property to be given up in a "qualified escrow account" pending the closing of the property to be received.

Courtesy of Beach Realty & Construction